

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

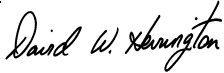
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name	License Number		

# **City of Mount Clemens, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2006**

# City of Mount Clemens, Michigan

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# City of Mount Clemens, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and City Commission  
City of Mount Clemens, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Clemens, Michigan (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Mount Clemens, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Clemens, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budget comparison schedule, and retirement system schedules of funding progress and employer contributions, identified in the table of contents as required supplemental information, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and City Commission  
City of Mount Clemens, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mount Clemens, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

August 22, 2006

# **City of Mount Clemens, Michigan**

## **Management's Discussion and Analysis**

Our discussion and analysis of the City of Mount Clemens, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- The City decreased staffing by 29 full-time positions. This was accomplished by disbanding the police department and dispatch as of June 30, 2005 and contracting with the Macomb County sheriff's department with a savings of over \$1.4 million in operating and maintenance costs. This does not include the legacy costs associated with retirement benefits or capital improvements.
- State-shared revenue, our second largest revenue sources, remained relatively level.
- The City's retirement contribution decreased, based on the annual actuarial valuation, by approximately \$434,000 primarily due to decreases in staffing noted below.
- The City continuously reviews the organization and looks to improve the services and flow of work throughout. This past year, the City contracted for a strategic plan; this included input from the residents and businesses through town hall meetings.
- Total net assets related to the City's governmental activities increased by approximately \$1,012,000. The unrestricted portion of net assets increased by approximately \$1,487,000.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Mount Clemens, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2006 and 2005 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current assets	\$ 6,718	\$ 6,810	\$ 2,657	\$ 3,271	\$ 9,375	\$ 10,081
Noncurrent assets	<u>12,161</u>	<u>12,191</u>	<u>65,350</u>	<u>67,235</u>	<u>77,511</u>	<u>79,426</u>
Total assets	18,879	19,001	68,007	70,506	86,886	89,507
<b>Liabilities</b>						
Current liabilities	1,422	2,084	4,353	4,011	5,775	6,095
Long-term liabilities	<u>887</u>	<u>1,359</u>	<u>32,023</u>	<u>35,466</u>	<u>32,910</u>	<u>36,825</u>
Total liabilities	<u>2,309</u>	<u>3,443</u>	<u>36,376</u>	<u>39,477</u>	<u>38,685</u>	<u>42,920</u>
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	11,269	11,022	29,158	28,612	40,427	39,634
Restricted	3,421	4,143	166	-	3,587	4,143
Unrestricted	<u>1,880</u>	<u>393</u>	<u>2,307</u>	<u>2,417</u>	<u>4,187</u>	<u>2,810</u>
Total net assets	<u><u>\$ 16,570</u></u>	<u><u>\$ 15,558</u></u>	<u><u>\$ 31,631</u></u>	<u><u>\$ 31,029</u></u>	<u><u>\$ 48,201</u></u>	<u><u>\$ 46,587</u></u>

Net assets of the governmental activities totaled approximately \$16.6 million at June 30, 2006, an increase of approximately 6.5 percent from June 30, 2005. Unrestricted net assets of the governmental activities, the part of net assets used to finance day-to-day operations, increased by \$1,487,000 over the June 30, 2005 balance of \$393,000.

In reviewing the City's net assets of business-type activities, the net assets invested in capital assets, net of related debt, increased approximately 1.9 percent due to various asset additions offset by depreciation expense. Total net assets of the business-type activities increased by approximately \$602,000, primarily due the increase in the City's water supply and sanitary systems investments in capital assets.



# City of Mount Clemens, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the years ended June 30, 2006 and 2005 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 3,383	\$ 2,924	\$ 9,811	\$ 8,987	\$ 13,194	\$ 11,911
Operating grants and contributions	1,532	1,527	-	-	1,532	1,527
Capital grants and contributions	-	-	-	9	-	9
General revenue:						
Property taxes	7,104	6,982	-	191	7,104	7,173
State-shared revenue	2,117	2,092	-	-	2,117	2,092
Unrestricted investment earnings	168	125	64	61	232	186
Franchise fees	175	301	-	-	175	301
Income (loss) from joint venture	(16)	84	-	-	(16)	84
Gain on sale of assets	28	2	-	-	28	2
Miscellaneous revenue	608	449	-	-	608	449
Total revenue	15,099	14,486	9,875	9,248	24,974	23,734
<b>Program Expenses</b>						
General government	4,669	4,720	-	-	4,669	4,720
Public safety	4,880	7,227	-	-	4,880	7,227
Public works	2,827	2,788	-	-	2,827	2,788
Recreation and culture	464	352	-	-	464	352
Interest on long-term debt	36	51	-	-	36	51
Sewage disposal system	-	-	4,587	4,747	4,587	4,747
Water supply system	-	-	2,356	2,429	2,356	2,429
Sanitary system	-	-	914	860	914	860
Automobile parking system	-	-	860	860	860	860
Ice arena	-	-	1,766	1,807	1,766	1,807
Total program expenses	12,876	15,138	10,483	10,703	23,359	25,841
<b>Excess (Deficiency) of Revenue Over Expenses - Before transfers</b>	2,223	(652)	(608)	(1,455)	1,615	(2,107)
<b>Transfers</b>	(1,210)	(1,110)	1,210	1,110	-	-
<b>Change in Net Assets</b>	<u>\$ 1,013</u>	<u>\$ (1,762)</u>	<u>\$ 602</u>	<u>\$ (345)</u>	<u>\$ 1,615</u>	<u>\$ (2,107)</u>

# **City of Mount Clemens, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

The City's three largest revenue items are property taxes that total 47.0 percent of the revenue; charges for services, including district court fees, building department fees, business permits and fees, at 22.4 percent; and state-shared revenue at 14.0 percent. These three revenue sources total 83.4 percent of the total revenue. This past fiscal year, our revenue increased as a result of modest increases in property tax revenue and increased parking fines.

Public safety and general government expenses in the governmental activities account for approximately 75 percent of the total amounts expended. Public works expense is the next largest function. This past year, the City experienced significant decreases in public safety expenses as a result of contracting police services through the Macomb County sheriff. In total, there was an increase in net assets totaling approximately \$1,013,000.

### **Business-type Activities**

The City's business-type activities include water, sewer, sanitation, auto parking, and ice arena. The City provides water and sewer through its own water plant and sewage treatment plant. The ice arena is owned by the City, but is operated by a management company, and has provided the funds to cover all expenses including the bond issue for the building of the arena. These bonds were defeased in a previous year to lower the interest rate for a savings to the City, the management company, and the customers.

Rates for the various Enterprise Funds (Water, Sewer, Sanitation, Ice Arena, and Auto Parking) are reviewed and approved annually. Expenses are continuously reviewed and discussed with the City Commission.

### **The City's Funds**

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Commission creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major governmental fund is the General Fund; all other funds are reported as nonmajor funds. The other supplemental information includes combining schedules that present the individual nonmajor funds. All of the City's Enterprise Funds are presented as major funds.

The General Fund pays for most of the City's governmental services. The most significant are police and fire and general government services, which incurred expenditures of approximately \$4.2 million and \$2.98 million, respectively, in 2006.

# **City of Mount Clemens, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **General Fund Budgetary Highlights**

During the year, the City amended the budget to take into account various events that occurred during the year. Some of these events were health insurance refunds that were approximately \$100,000 larger than expected due to favorable experience, parking fines that exceeded projections by approximately \$65,000 due to increased enforcement, and increase of available federal grants by approximately \$185,000. Budgeted expenditures were reduced by approximately \$100,000 due to a reorganization of the 41B District Court and reduction of legal services and City administration costs totaling approximately \$81,000.

### **Capital Asset and Debt Administration**

The City's business-type activities made a substantial investment of over \$40 million in the separation of storm and sanitary drain lines, new water and sewer lines, and related street improvements in the past five years. The City issued bonds through the State of Michigan totaling \$29,689,530, with interest rates of 2.25 percent and 2.50 percent. The balance of the project was funded through special assessments and City contributions. The project was completed in June 2002.

In the current year, the City made repairs to the fire department building and purchased various equipment, including a generator, crew cab truck, and radio equipment. The City also purchased software for various departments.

The City will be requesting a bond through the State of Michigan's Drinking Water Revolving Fund program in the amount of \$3.55 million with an interest rate of 2.125 percent and a 20-year amortization period. The bond will be used to address a mandate from the Michigan Department of Environmental Quality to replace the backwash system in the water treatment plant along with repairs to the elevated storage tank and a water main replacement.

In fiscal year 2008, the City will see a major reduction in debt for the business-type activities. This is due to the final payments on the 1986 wastewater treatment plant bond issue. During this fiscal year, the principal and interest payment on this debt totaled \$1,495,000.

### **Current Economic Conditions and Next Year's Budget**

The City will continue to face difficulty in balancing its budget due to inherent limitations on its primary sources of revenue. The three major funding sources for the City are property taxes, state-shared revenues, and fees and charges, all of which are subject to limitations that will prevent them from increasing by much more than the rate of inflation, for at least the foreseeable future. On the other hand, expenses are expected to increase by more than inflation in many areas such as health insurance, retiree benefits, and energy costs. Through the use of long-term planning, the City will continue to evaluate and monitor its budget. Adjustments will be made to address changes in economic conditions and other events.

# **City of Mount Clemens, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at (586) 469-6818.

# City of Mount Clemens, Michigan

## Statement of Net Assets June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 4,330,446	\$ 782,712	\$ 5,113,158	\$ 426,223
Investments (Note 3)	155,964	475,228	631,192	-
Receivables:				
Taxes - Net of allowance of \$37,261	191,380	12,460	203,840	4,739
Customers	-	1,565,079	1,565,079	-
Special assessments	89,667	-	89,667	-
Other governmental units (Note 4)	1,270,831	-	1,270,831	-
Accrued interest and other	71,181	11,603	82,784	-
Interfund balances (Note 6)	419,903	(419,903)	-	-
Inventories	-	97,206	97,206	-
Assets held for resale	-	-	-	151,892
Prepaid expenses	189,066	43,851	232,917	861
Other assets	-	88,873	88,873	-
Investment in joint venture (Note 13)	211,803	-	211,803	-
Restricted assets (Note 8)	-	634,054	634,054	-
Capital assets (Note 5):				
Nondepreciable capital assets	3,520,316	3,706,362	7,226,678	-
Depreciable capital assets - Net	8,429,176	61,009,557	69,438,733	-
<b>Total assets</b>	<b>18,879,733</b>	<b>68,007,082</b>	<b>86,886,815</b>	<b>583,715</b>
<b>Liabilities</b>				
Accounts payable	374,766	339,186	713,952	39,683
Accrued and other liabilities	417,732	590,802	1,008,534	-
Deferred revenue (Note 4)	67,652	-	67,652	-
Noncurrent liabilities (Note 7):				
Due within one year	561,984	3,423,293	3,985,277	-
Due in more than one year	886,879	32,022,807	32,909,686	-
<b>Total liabilities</b>	<b>2,309,013</b>	<b>36,376,088</b>	<b>38,685,101</b>	<b>39,683</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	11,269,477	29,157,297	40,426,774	-
Restricted:				
Streets	1,313,961	-	1,313,961	-
Debt service	731,750	166,411	898,161	-
Transportation	496,691	-	496,691	-
Construction	878,784	-	878,784	-
Unrestricted	1,880,057	2,307,286	4,187,343	544,032
<b>Total net assets</b>	<b>\$ 16,570,720</b>	<b>\$ 31,630,994</b>	<b>\$ 48,201,714</b>	<b>\$ 544,032</b>

# City of Mount Clemens, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 4,669,288	\$ 2,724,188	\$ 168,566	\$ -
Public safety	4,879,746	516,473	167,084	-
Public works	2,826,932	109,723	1,193,868	-
Recreation and culture	464,325	32,730	2,266	-
Interest on long-term debt	36,143	-	-	-
Total governmental activities	12,876,434	3,383,114	1,531,784	-
Business-type activities:				
Sewage disposal system	4,587,320	4,330,094	-	-
Water supply system	2,355,575	2,577,569	-	-
Sanitary system	914,235	341,545	-	-
Automobile parking system	859,790	832,947	-	-
Ice arena	1,765,702	1,729,210	-	-
Total business-type activities	10,482,622	9,811,365	-	-
Total primary government	<u>\$ 23,359,056</u>	<u>\$ 13,194,479</u>	<u>\$ 1,531,784</u>	<u>\$ -</u>
Component units:				
Downtown Development Authority	\$ 494,345	\$ 127,244	\$ -	\$ -
Brownfield Redevelopment Authority	39,345	-	41,313	-
Total component units	<u>\$ 533,690</u>	<u>\$ 127,244</u>	<u>\$ 41,313</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Income from joint venture				
Gain on sale of assets				
Transfers				
Total general revenues and transfers				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,776,534)	\$ -	\$ (1,776,534)	\$ -
(4,196,189)	-	(4,196,189)	-
(1,523,341)	-	(1,523,341)	-
(429,329)	-	(429,329)	-
(36,143)	-	(36,143)	-
(7,961,536)	-	(7,961,536)	-
-	(257,226)	(257,226)	-
-	221,994	221,994	-
-	(572,690)	(572,690)	-
-	(26,843)	(26,843)	-
-	(36,492)	(36,492)	-
-	(671,257)	(671,257)	-
(7,961,536)	(671,257)	(8,632,793)	-
-	-	-	(367,101)
-	-	-	1,968
-	-	-	(365,133)
7,103,793	-	7,103,793	452,939
2,117,338	-	2,117,338	-
167,541	63,721	231,262	6,239
174,899	-	174,899	-
608,061	-	608,061	-
(15,711)	-	(15,711)	-
28,025	-	28,025	-
(1,210,000)	1,210,000	-	-
8,973,946	1,273,721	10,247,667	459,178
1,012,410	602,464	1,614,874	94,045
15,558,310	31,028,530	46,586,840	449,987
<b>\$ 16,570,720</b>	<b>\$ 31,630,994</b>	<b>\$ 48,201,714</b>	<b>\$ 544,032</b>

# City of Mount Clemens, Michigan

## Governmental Funds Balance Sheet June 30, 2006

	Major Fund - General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 592,766	\$ 3,269,747	\$ 3,862,513
Investments (Note 3)	155,964	-	155,964
Receivables:			
Taxes - Net of allowance of \$37,261	140,594	50,786	191,380
Special assessments	-	89,667	89,667
Other governmental units (Note 4)	1,063,368	207,463	1,270,831
Accrued interest and other	5,553	14,498	20,051
Prepaid expenses	177,587	8,009	185,596
Due from other funds (Note 6)	309,903	110,000	419,903
Total assets	<b>\$ 2,445,735</b>	<b>\$ 3,750,170</b>	<b>\$ 6,195,905</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 207,565	\$ 144,129	351,694
Accrued and other liabilities	290,777	5,394	296,171
Deferred revenue (Note 4)	24,009	133,310	157,319
Due to other funds (Note 6)	40,141	-	40,141
Due to other governmental units	107,721	1,141	108,862
Total liabilities	670,213	283,974	954,187
<b>Fund Balances</b>			
Reserved:			
Debt service	-	731,750	731,750
Prepaid expenses	177,587	8,009	185,596
Unreserved:			
Designated (Note 12)	1,300,000	-	1,300,000
Undesignated	297,935	-	297,935
Unreserved - Reported in nonmajor Special Revenue Funds	-	2,726,437	2,726,437
Total fund balances	1,775,522	3,466,196	5,241,718
Total liabilities and fund balances	<b>\$ 2,445,735</b>	<b>\$ 3,750,170</b>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			11,458,018
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures			89,667
Long-term liabilities are not due and payable in the current period and are not reported in the funds			(1,232,756)
Accrued interest is recognized when incurred in the statement of net assets			(12,699)
The investments in joint venture are not reported in the funds			211,803
Internal Service Funds are included as part of governmental activities			814,969
Net assets of governmental activities			<b>\$ 16,570,720</b>



# City of Mount Clemens, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	Major Fund - General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 5,489,382	\$ 1,587,903	\$ 7,077,285
Federal entitlement and grant revenue	381,483	-	381,483
State-shared - Grants and other revenue	2,164,854	1,034,483	3,199,337
Local intergovernmental revenue	-	53,575	53,575
Special assessments	-	91,570	91,570
Charges for services	982,491	60,513	1,043,004
Licenses and permits	322,254	-	322,254
Interest	50,818	98,048	148,866
Fines, forfeitures, and probation screening fees	1,956,312	340,725	2,297,037
Miscellaneous revenue	608,852	16,151	625,003
Total revenue	11,956,446	3,282,968	15,239,414
<b>Expenditures</b>			
Current:			
General government	2,984,742	-	2,984,742
Public safety	4,209,419	21,897	4,231,316
Public works	748,266	2,424,058	3,172,324
Recreation	257,213	-	257,213
Other functions	2,669,291	-	2,669,291
Debt service:			
Principal retirement	-	200,000	200,000
Interest and fiscal charges	-	30,323	30,323
Total expenditures	10,868,931	2,676,278	13,545,209
<b>Excess of Revenue Over Expenditures</b>	1,087,515	606,690	1,694,205
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	240,625	240,625
Transfers out	-	(1,450,625)	(1,450,625)
Total other financing uses	-	(1,210,000)	(1,210,000)
<b>Change in Fund Balances</b>	1,087,515	(603,310)	484,205
<b>Fund Balances - Beginning of year</b>	688,007	4,069,506	4,757,513
<b>Fund Balances - End of year</b>	<u>\$ 1,775,522</u>	<u>\$ 3,466,196</u>	<u>\$ 5,241,718</u>

# City of Mount Clemens, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006**

**Net Change in Fund Balances - Total Governmental Funds** \$ 484,205

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	836,605
Depreciation expense	(768,377)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(61,880)
--	----------

Repayment of bond principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt)	230,844
--	---------

Settlement of general liability claims is recorded when incurred in the statement of activities	35,000
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Accrued interest is recorded on debt when incurred in the statement of activities	3,937
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Decrease in accumulated employee compensated absences is recorded when earned in the statement of activities	260,476
--	---------

Income from joint venture is not recorded in the funds	(15,711)
--	----------

Internal Service Funds are also included as governmental activities	7,311
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**Change in Net Assets of Governmental Activities** \$ 1,012,410

# City of Mount Clemens, Michigan

	Enterprise Funds		
	Sewage Disposal System	Water Supply System	Sanitary Department
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 3)	\$ -	\$ -	\$ 124,979
Investments (Note 3)	-	-	475,228
Receivables:			
Taxes	-	-	12,460
Customers	918,924	552,147	84,521
Accrued interest and other	-	954	-
Prepaid expenses	28,632	9,708	5,511
Due from other funds (Note 6)	716,387	-	590,055
Inventories	6,694	58,446	-
Total current assets	1,670,637	621,255	1,292,754
Noncurrent assets:			
Other assets	-	-	-
Restricted assets (Note 8)	207,105	116,429	-
Capital assets (Note 5):			
Nondepreciable capital assets	-	-	-
Depreciable capital assets - Net	41,039,982	12,820,195	465
Total noncurrent assets	41,247,087	12,936,624	465
Total assets	42,917,724	13,557,879	1,293,219
<b>Liabilities</b>			
Current liabilities:			
Current portion of long-term debt (Note 7)	2,461,796	504,009	-
Accounts payable	122,174	93,015	70,184
Accrued and other liabilities	247,013	4,595	13,148
Due to other funds (Note 6)	159,903	921,596	110,000
Total current liabilities	2,990,886	1,523,215	193,332
Current liabilities payable from restricted assets	40,694	116,429	-
Long-term debt - Net of current portion (Note 7)	14,932,656	9,244,818	22,843
Total liabilities	17,964,236	10,884,462	216,175
<b>Net Assets (Deficit)</b>			
Invested in capital assets - Net of related debt	23,744,512	3,137,183	465
Restricted - Revenue bond ordinances	166,411	-	-
Unrestricted	1,042,565	(463,766)	1,076,579
Total net assets (deficit)	\$ 24,953,488	\$ 2,673,417	\$ 1,077,044

**Proprietary Funds**  
**Statement of Net Assets (Deficit)**  
**June 30, 2006**

Enterprise Funds			Governmental Activities
Automobile Parking System	Ice Arena	Total Enterprise Funds	Internal Service Fund
\$ 650,604	\$ 7,129	\$ 782,712	\$ 467,933
-	-	475,228	-
-	-	12,460	-
-	-	1,555,592	1,136
9,487	10,649	21,090	49,994
-	-	43,851	3,470
-	-	1,306,442	40,141
-	32,066	97,206	-
660,091	49,844	4,294,581	562,674
88,873	-	88,873	-
310,520	-	634,054	-
3,706,362	-	3,706,362	-
3,190,542	3,958,373	61,009,557	491,474
7,296,297	3,958,373	65,438,846	491,474
7,956,388	4,008,217	69,733,427	1,054,148
100,000	270,000	3,335,805	31,984
6,907	46,906	339,186	23,072
189,953	66,458	521,167	-
-	534,846	1,726,345	-
296,860	918,210	5,922,503	55,056
-	-	157,123	-
4,934,155	2,888,335	32,022,807	184,123
5,231,015	3,806,545	38,102,433	239,179
1,475,099	800,038	29,157,297	275,367
-	-	166,411	-
1,250,274	(598,366)	2,307,286	539,602
<b>\$ 2,725,373</b>	<b>\$ 201,672</b>	<b>\$ 31,630,994</b>	<b>\$ 814,969</b>

# City of Mount Clemens, Michigan

	Enterprise Funds - Major Funds		
	Sewage Disposal	Water Supply System	Sanitary Department
<b>Operating Revenue</b>			
Customer billings	\$ 4,273,463	\$ 2,447,624	\$ 303,273
Billings to other funds	-	-	-
Other revenue	56,631	129,945	38,272
Total operating revenue	4,330,094	2,577,569	341,545
<b>Operating Expenses</b>			
Cost of materials	104,328	188,120	8,911
Water supply and sewage disposal	1,855,538	981,292	-
Maintenance and operation	-	-	854,861
General and administrative	618,983	431,503	50,078
Depreciation	1,471,517	479,612	385
Total operating expenses	4,050,366	2,080,527	914,235
<b>Operating Income (Loss)</b>	279,728	497,042	(572,690)
<b>Nonoperating Revenue (Expenses)</b>			
Interest income	2,814	5,285	30,126
Interest expense	(536,954)	(275,048)	-
Gain on sale of assets	-	-	-
<b>Income (Loss) - Before transfers</b>	(254,412)	227,279	(542,564)
<b>Transfers In</b>	1,320,000	-	-
<b>Transfers Out</b>	-	-	(110,000)
<b>Net Change in Net Assets</b>	1,065,588	227,279	(652,564)
<b>Net Assets - Beginning of year</b>	23,887,900	2,446,138	1,729,608
<b>Net Assets - End of year</b>	<u>\$ 24,953,488</u>	<u>\$ 2,673,417</u>	<u>\$ 1,077,044</u>

**Proprietary Funds**

**Statement of Revenue, Expenses, and Changes in Net Assets**  
**Year Ended June 30, 2006**

Enterprise Funds - Major Funds			Governmental Activities
Automobile Parking System	Ice Arena	Total Enterprise Funds	Internal Service Fund
\$ 826,232	\$ 1,729,210	\$ 9,579,802	\$ -
-	-	-	633,383
6,715	-	231,563	7,349
832,947	1,729,210	9,811,365	640,732
8,578	118,264	428,201	188,516
-	-	2,836,830	-
375,005	1,114,696	2,344,562	309,884
60,000	167,685	1,328,249	63,833
205,958	184,311	2,341,783	107,095
649,541	1,584,956	9,279,625	669,328
183,406	144,254	531,740	(28,596)
24,166	1,330	63,721	17,639
(210,249)	(180,746)	(1,202,997)	(9,757)
-	-	-	28,025
(2,677)	(35,162)	(607,536)	7,311
-	-	1,320,000	-
-	-	(110,000)	-
(2,677)	(35,162)	602,464	7,311
2,728,050	236,834	31,028,530	807,658
<b>\$ 2,725,373</b>	<b>\$ 201,672</b>	<b>\$ 31,630,994</b>	<b>\$ 814,969</b>

# City of Mount Clemens, Michigan

	Enterprise Funds		
	Sewage Disposal	Water Supply System	Sanitary Department
<b>Cash Flows from Operating Activities</b>			
Receipts from customers and other funds	\$ 4,290,496	\$ 2,340,129	\$ 310,852
Payments to suppliers and employees	(2,476,882)	(1,598,391)	(810,177)
Other receipts	56,631	129,945	38,272
Net cash provided by (used in) operating activities	1,870,245	871,683	(461,053)
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers out to other funds	-	-	(110,000)
Interfund receipts (payments)	(90,293)	(33,791)	(421,366)
Net cash provided by (used in) noncapital financing activities	(90,293)	(33,791)	(531,366)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchase of capital assets	(14,169)	(3,827)	-
Transfers in from other funds	1,320,000	-	-
Proceeds from sale of capital assets	-	-	-
Principal and interest paid on long-term debt	(2,913,520)	(848,857)	-
Net cash used in capital and related financing activities	(1,607,689)	(852,684)	-
<b>Cash Flows from Investing Activities - Interest received on investments</b>	2,814	5,285	4,898
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	175,077	(9,507)	(987,521)
<b>Cash and Cash Equivalents - Beginning of year</b>	32,028	125,936	1,112,500
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 207,105</u>	<u>\$ 116,429</u>	<u>\$ 124,979</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and cash equivalents	\$ -	\$ -	\$ 124,979
Restricted assets (Note 8)	207,105	116,429	-
Total cash and cash equivalents	<u>\$ 207,105</u>	<u>\$ 116,429</u>	<u>\$ 124,979</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>			
Operating income (loss)	\$ 279,728	\$ 497,042	\$ (572,690)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	1,471,517	479,612	385
Changes in assets and liabilities:			
Receivables	17,033	(107,495)	7,579
Prepaid expenses	(28,632)	(9,708)	(5,511)
Inventories	-	-	-
Accounts payable	90,413	62,718	111,200
Accrued and other liabilities	40,186	(50,486)	(2,016)
Net cash provided by (used in) operating activities	<u>\$ 1,870,245</u>	<u>\$ 871,683</u>	<u>\$ (461,053)</u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2006, there were no noncash investing, capital, or financing activities.

**Proprietary Funds  
Statement of Cash Flows  
Year Ended June 30, 2006**

Enterprise Funds			Governmental Activities
Automobile Parking System	Ice Arena	Total Enterprise Funds	Internal Service Fund
\$ 817,050	\$ 1,733,368	\$ 9,491,895	\$ 591,723
(453,294)	(1,380,741)	(6,719,485)	(555,625)
6,715	-	231,563	7,349
370,471	352,627	3,003,973	43,447
-	-	(110,000)	-
-	245,244	(300,206)	-
-	245,244	(410,206)	-
(135,426)	(260,591)	(414,013)	(46,435)
-	-	1,320,000	-
-	-	-	9,055
(303,333)	(389,079)	(4,454,789)	(40,159)
(438,759)	(649,670)	(3,548,802)	(77,539)
24,166	1,330	38,493	17,639
(44,122)	(50,469)	(916,542)	(16,453)
1,005,246	57,598	2,333,308	484,386
<b>\$ 961,124</b>	<b>\$ 7,129</b>	<b>\$ 1,416,766</b>	<b>\$ 467,933</b>
\$ 650,604	\$ 7,129	\$ 782,712	\$ 467,933
310,520	-	634,054	-
<b>\$ 961,124</b>	<b>\$ 7,129</b>	<b>\$ 1,416,766</b>	<b>\$ 467,933</b>
\$ 183,406	\$ 144,254	\$ 531,740	\$ (28,596)
205,958	184,311	2,341,783	107,095
(9,182)	4,158	(87,907)	(41,660)
-	-	(43,851)	(3,470)
-	1,947	1,947	-
1,281	25,421	291,033	11,689
(10,992)	(7,464)	(30,772)	(1,611)
<b>\$ 370,471</b>	<b>\$ 352,627</b>	<b>\$ 3,003,973</b>	<b>\$ 43,447</b>



# City of Mount Clemens, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2006

	Pension and Other Employee Benefits Trust Fund - Employees' Retirement System	Agency Funds
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 1,041,474	\$ 757,827
Investments (Note 3):		
Common stock	26,160,528	-
U.S. government agency securities	10,399,160	-
U.S. Treasury notes	2,426,441	-
Corporate bonds	12,185,840	-
Mutual funds	5,911,821	-
Receivables - Accrued interest	241,746	-
Total assets	58,367,010	<u><u>\$ 757,827</u></u>
<b>Liabilities</b>		
Accounts payable	27,045	
Due to other governmental units	1,600	\$ 524,609
Cash bonds and deposits	-	233,218
Total liabilities	28,645	<u><u>\$ 757,827</u></u>
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u><u>\$ 58,338,365</u></u>	

# City of Mount Clemens, Michigan

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## **Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Employees' Retirement System Year Ended June 30, 2006**

### **Additions**

Investment income:	
Interest and dividends	\$ 2,084,589
Net increase in fair value of investments	2,454,754
Less investment expenses	<u>(229,895)</u>
Net investment income	4,309,448
Property taxes	364,791
Contributions:	
Employer	500,095
Employee	<u>286,117</u>
Total contributions	<u>786,212</u>
Total additions	5,460,451

### **Deductions**

Benefit payments	3,791,891
Refunds of contributions	415,587
Administrative expenses	<u>101,701</u>
Total deductions	<u>4,309,179</u>

### **Net Increase**

1,151,272

### **Net Assets Held in Trust for Pension and Other Employee Benefits**

Beginning of year	<u>57,187,093</u>
End of year	<u><b>\$ 58,338,365</b></u>

# City of Mount Clemens, Michigan

## Component Units Statement of Net Assets June 30, 2006

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 426,223	\$ -	\$ 426,223
Assets held for resale	151,892	-	151,892
Taxes receivable	4,739	-	4,739
Prepaid expenses	861	-	861
Total assets	583,715	-	583,715
<b>Liabilities</b> - Accounts payable	39,683	-	39,683
<b>Net Assets</b> - Unrestricted	<u>\$ 544,032</u>	<u>\$ -</u>	<u>\$ 544,032</u>

# City of Mount Clemens, Michigan

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		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants/ Contributions
Downtown Development Authority:			
Public works	\$ 494,345	\$ 127,244	\$ -
Brownfield Redevelopment Authority -			
General government	39,345	-	41,313
Total governmental activities	<u>\$ 533,690</u>	<u>\$ 127,244</u>	<u>\$ 41,313</u>
General revenues:			
Property taxes			
Interest			
Total general revenues			
<b>Change in Net Assets</b>			
<b>Net Assets (Deficit) - Beginning of year</b>			
<b>Net Assets - End of year</b>			

**Component Units  
Statement of Activities  
Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Brownfield Redevelopment Authority	Total
\$ (367,101)	\$ -	\$ (367,101)
-	1,968	1,968
(367,101)	1,968	(365,133)
452,939	-	452,939
6,239	-	6,239
459,178	-	459,178
92,077	1,968	94,045
451,955	(1,968)	449,987
<b>\$ 544,032</b>	<b>\$ -</b>	<b>\$ 544,032</b>

# City of Mount Clemens, Michigan

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## Notes to Financial Statements June 30, 2006

### Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Mount Clemens, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The following is a summary of the significant accounting policies used by the City of Mount Clemens, Michigan:

#### **Reporting Entity**

The City of Mount Clemens, Michigan is governed by an elected seven-member commission. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

**Blended Component Unit** - The Mount Clemens Building Authority is governed by a board that is appointed by the City Commission. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

**Discretely Presented Component Units** - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 11 individuals, is selected by the City Commission. In addition, the Authority's budget is subject to approval by the City Commission.

The Brownfield Redevelopment Finance Authority (BRFA) was created to facilitate the implementation of plans for the identification, treatment, and revitalization of environmentally distressed areas within the City designated as Brownfield Redevelopment Zones. The BRFA's board of directors, consisting of nine members, is selected by the City Commission. In addition, the BRFA's budget is subject to approval by the City Commission.

Financial statements for the DDA and BRFA can be obtained from the administrative offices at One Crocker Blvd., Mount Clemens, MI 48043.

The City has excluded the Mount Clemens Housing Commission from this report. Even though the City appoints the Housing Commission's directors, it does not have the ability to impose its will.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major Enterprise Funds:

**Sewage Disposal System Fund** - The Sewage Disposal System Fund accounts for the activities of the sewage collection and disposal system.

**Water Supply System Fund** - The Water Supply System Fund accounts for the activities of the water distribution system.

# City of Mount Clemens, Michigan

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## Notes to Financial Statements June 30, 2006

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Sanitary Department Fund** - The Sanitary Department Fund accounts for the City's garbage and rubbish disposal activities.

**Automobile Parking System Fund** - The Automobile Parking System Fund accounts for the City's metered on-street and parking lot activities.

**Ice Arena Fund** - The Ice Arena Fund accounts for the City's ice arena operations.

Additionally, the City reports the following fund types:

**Internal Service Fund** - The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

**Pension and Other Employee Benefits Trust Fund** - The Employees' Retirement System Pension accounts for the accumulation of resources for pension benefit payments to substantially all City employees.

**Agency Funds** - Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is susceptible to accrual - that is, when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes, state-shared revenue, and interest are all considered to be susceptible to accrual.



# City of Mount Clemens, Michigan

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## Notes to Financial Statements June 30, 2006

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absence expenditures are recorded only when payment is due.

Proprietary funds distinguish between operating revenue and expenses and nonoperating items. Operating revenue and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued on or before November 30, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after November 30, 1989 to its business-type activities and Enterprise Funds.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds within the governmental and business-type activities columns are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Property Taxes** - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2005 ad valorem tax is levied and collectible on July 1, 2005, and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note I - Summary of Significant Accounting Policies (Continued)

The 2005 taxable valuation of the City totaled approximately \$412 million, on which ad valorem taxes levied consisted of 13.7097 mills for operating purposes, 3.0275 mills for debt service, 0.9137 mills for Police and Fire Pension, and 0.9137 for Dial-A-Ride services. Net of tax capture by the Downtown Development Authority, the tax levies resulted in approximately \$5.5 million for operating purposes, \$1.2 million for debt service, \$365,000 for Police and Fire Pension, and \$367,000 for Dial-A-Ride services. These amounts are recognized in the respective General, Special Revenue, Debt Service, Enterprise, and Fiduciary Funds financial statements as tax revenue.

**Inventories** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**Restricted Assets** - Outstanding bonds in the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water supply and sewage disposal systems, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Assets are depreciated using the straight-line method over the following useful lives:

Roads and bridges	25 to 40 years
Sidewalks	20 years
Buildings and improvements	40 to 50 years
Land improvements	10 to 20 years
Machinery and equipment	5 to 15 years
Plant facilities	50 to 66 years
Production facilities	20 to 66 years
Transmission facilities	50 years
Tunnels and retention basins	50 years

### **Note I - Summary of Significant Accounting Policies (Continued)**

**Compensated Absences** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as they come due for payment, generally when there are employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts and the deferred amount on refundings are deferred and amortized over the life of the bonds. Bonds payable are reported net of these amounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue and Debt Service Funds, except for the fringe benefit reimbursements which are budgeted as revenues. All annual appropriations lapse at fiscal year end.

Prior to the first regular City Commission meeting in April, the city manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to the third Monday in May.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The city manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Commission.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City incurred expenditures that were in excess of the amount budgeted, as follows:

	Budget	Actual
General Fund:		
Public safety - Fire	\$ 1,349,396	\$ 1,389,205
Public works - Community Development		
Block Grant	138,775	240,530

**Fund Deficits** - The City has accumulated deficits of unrestricted net assets in the Water and Ice Arena individual funds. Plans to eliminate the deficits will be filed with the State of Michigan Local Audit Finance Division.

# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**Noncompliance with Legal or Contractual Provisions** - At June 30, 2006, the City was not in compliance with the provisions of the Sewage Disposal and Water Supply revenue bond covenants that require cash and cash equivalents to be accumulated in a restricted account (see Note 8 for further disclosure).

**State Construction Code Fees** - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation, to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity for the year ended June 30, 2006 is as follows:

Cumulative shortfall - July 1, 2005		\$ (713,353)
Building permit revenue		273,155
Related expenditures:		
Direct costs	\$ 366,689	
Estimated indirect costs	<u>36,669</u>	
Total construction code expenses		<u>403,358</u>
Excess of expenditures over revenue		<u>(130,203)</u>
Cumulative shortfall - June 30, 2006		<u><u>\$ (843,556)</u></u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units (the City) to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

### **Note 3 - Deposits and Investments (Continued)**

The pension trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The City does not have a separate investment policy for its pension funds; however, the City does follow the state pension act limits.

The City's investment policy adopted by the commission limits investments to those listed under the State's statutory authority as noted above. At June 30, 2006, the City's deposits and investments are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk - City-wide Bank Deposits and Investments** - Custodial credit risk is the risk that in the event of a third-party custodian's failure, the City's deposits and investments may not be returned. The City's investment policy requires that deposits and investments held by a third-party custodian be evidenced by a safekeeping receipt. At year end, the City had \$4.9 million of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it invests funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments - Pension and Other Employee Benefit Trust Funds** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's pension trust fund does not have an investment policy for custodial credit risk.

# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note 3 - Deposits and Investments (Continued)

At year end, the following investment securities were uninsured and unregistered, and held by a counterparty or by its trust department or agent but not in the City's name:

Investment Type	Fair Value of City-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	How Held
Negotiable certificate of deposits	\$ 618,501	\$ -	Counterparty
Collateralized mortgage obligations	-	3,902,824	Counterparty
United States government agency securities	-	10,399,160	Counterparty
United States government treasury bonds	-	2,426,441	Counterparty
Corporate asset backed	-	1,982,490	Counterparty
Corporate bonds	-	6,300,527	Counterparty
Equity securities	-	26,160,528	Counterparty
Total uninsured and unregistered	<u>\$ 618,501</u>	<u>\$ 51,171,970</u>	

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment Type	Fair Value of City-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	Weighted Average Maturity
Negotiable certificate of deposits	\$ 618,501	\$ -	0.54 years
Collateralized mortgage obligations	-	3,902,824	26.33 years*
United States government agency securities	-	10,399,160	28.72 years*
United States government treasury bonds	-	2,426,441	15.94 years*
Corporate asset backed	-	1,982,490	7.55 years*
Corporate bonds	-	6,300,527	6.57 years*
Total uninsured and unregistered	<u>\$ 618,501</u>	<u>\$ 25,011,442</u>	

\* Governmental agency securities and all bonds are subject to monthly or quarterly principal and interest payments. The weighted average maturity is based on the expected date of the last principal and interest payment. These investments are callable and have interest rates ranging from 2.63 percent to 9.5 percent.

# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note 3 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities are as follows:

Investment Type	Fair Value	Rating	Rating Organization
United States government agency securities:			
Federal Home Loan Mortgage Corporation	\$ 3,522,485	Not rated	Not rated
Federal National Mortgage Association	7,596,079	Not rated	Not rated
Corporate bonds	6,300,527	BBB- to A+	Standards and Poor's
Collateralized mortgage obligations	3,902,824	NR to AAA	Standards and Poor's
U.S. government bonds	2,426,441	AAA	Standards and Poor's
Corporate asset backed	1,982,490	AAA	Standards and Poor's
Negotiable certificate of deposits	150,040	A+	Standards and Poor's
Negotiable certificate of deposits	468,461	Not rated	Not rated

**Concentration of Credit Risk** - The City places limits on deposits maintained at any given financial institution to no more than 50 percent of the City's total deposits. The City and City's Pension Fund do not limit investments in any one issuer. At June 30, 2006, the City's Pension Fund maintained investments in the Federal National Mortgage Association totaling approximately 13.01 percent of the pension fund's total investments. The City-wide funds maintained investments in the following banking institutions at June 30, 2006:

Institution	Fair Value
Standard Federal Bank of Troy	\$ 150,040
First Community Bank of Harbor Springs	99,738
Federal National Mortgage Association	121,753
Select Bank of Grand Rapids	246,970



# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note 4 - Receivables and Deferred Revenue

The following is the detail of the governmental activities due from other governmental units at June 30, 2006:

	General Fund	Other Nonmajor Funds	Total
State of Michigan	\$ 676,510	\$ 200,732	\$ 877,242
Other	<u>386,858</u>	<u>6,731</u>	<u>393,589</u>
Total	<u>\$ 1,063,368</u>	<u>\$ 207,463</u>	<u>\$ 1,270,831</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 89,667	\$ -
Grant payments received prior to meeting all eligibility requirements	<u>-</u>	<u>67,652</u>
Total	<u>\$ 89,667</u>	<u>\$ 67,652</u>

# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 2,791,978	\$ -	\$ -	\$ 2,791,978
Construction in progress	-	728,338	-	728,338
Subtotal	2,791,978	728,338	-	3,520,316
Capital assets being depreciated:				
Roads and bridges	8,929,463	-	-	8,929,463
Sidewalks	1,758,592	-	-	1,758,592
Buildings and improvements	2,876,224	-	-	2,876,224
Land improvements	2,873,019	-	-	2,873,019
Machinery and equipment	4,934,733	154,702	387,351	4,702,084
Subtotal	21,372,031	154,702	387,351	21,139,382
Accumulated depreciation:				
Roads and bridges	3,588,271	342,065	-	3,930,336
Sidewalks	1,082,176	71,699	-	1,153,875
Buildings and improvements	1,868,638	57,387	-	1,926,025
Land improvements	2,024,901	108,853	-	2,133,754
Machinery and equipment	3,636,928	295,468	366,180	3,566,216
Subtotal	12,200,914	875,472	366,180	12,710,206
Net capital assets being depreciated	9,171,117	(720,770)	21,171	8,429,176
Net capital assets	\$ 11,963,095	\$ 7,568	\$ 21,171	\$ 11,949,492

# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated -				
Land	\$ 3,706,362	\$ -	\$ -	\$ 3,706,362
Capital assets being depreciated:				
Plant facilities	23,499,193	261,320	-	23,760,513
Production facilities	6,380,759	-	-	6,380,759
Transmission facilities	14,551,179	3,098	-	14,554,277
Tunnels and retention basins	37,929,475	14,170	-	37,943,645
Machinery and equipment	8,421,649	54,309	-	8,475,958
Land improvements	5,280,743	86,286	-	5,367,029
Subtotal	96,062,998	419,183	-	96,482,181
Accumulated depreciation:				
Plant facilities	7,524,949	403,445	-	7,928,394
Production facilities	3,508,463	111,638	-	3,620,101
Transmission facilities	4,164,352	220,272	-	4,384,624
Tunnels and retention basins	9,443,345	701,501	-	10,144,846
Machinery and equipment	6,068,248	683,841	-	6,752,089
Land improvements	2,421,484	221,086	-	2,642,570
Subtotal	33,130,841	2,341,783	-	35,472,624
Net capital assets being depreciated	62,932,157	(1,922,600)	-	61,009,557
Net capital assets	<u>\$ 66,638,519</u>	<u>\$ (1,922,600)</u>	<u>\$ -</u>	<u>\$ 64,715,919</u>

Depreciation expense was charged to programs of the primary government as follows:

#### Governmental activities:

General government	\$ 251,834
Public safety	105,652
Public works	449,860
Recreation and culture	68,126
Total governmental activities	<u>\$ 875,472</u>

#### Business-type activities:

Sewage disposal	\$ 1,471,517
Water supply system	479,612
Sanitary department	385
Automobile parking system	205,958
Ice arena	184,311
Total business-type activities	<u>\$ 2,341,783</u>

# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows at June 30, 2006:

Receivable Fund	Payable Fund	Amount
General Fund	Sewage Disposal Fund	\$ 159,903
	Water Supply System Fund	<u>150,000</u>
Total General Fund		309,903
Sewage Disposal Fund	Water Supply System Fund	716,387
Sanitary Department Fund	Water Supply System Fund	55,209
	Ice Arena Fund	<u>534,846</u>
Total Sanitary Department Fund		590,055
Other governmental funds	Sanitary Department Fund	110,000
Internal Service Fund	General Fund	<u>40,141</u>
Total		<u>\$ 1,766,486</u>

Interfund balances result primarily from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The details of the interfund transfers for the year ended June 30, 2006 are as follows:

Funds Transferred From	Funds Transferred To	Amount
Sanitary Department Fund	Other governmental funds	\$ 110,000
Other governmental funds	Sewage Disposal Fund	1,320,000 (1)
	Other governmental funds	<u>130,625 (2)</u>
Total other governmental funds		<u>1,450,625</u>
Total		<u>\$ 1,560,625</u>

(1) Transfer of debt service levy for payment of Unlimited Tax General Obligation Bonds

(2) Transfer of funds for debt service (\$30,625) and transfer of Act 51 revenue-sharing payments from Major Streets Fund to Local Streets Fund as permitted by State law

# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General Obligation Bonds - 1992 Michigan					
Transportation Bonds	\$ 100,000	\$ -	\$ 25,000	\$ 75,000	\$ 25,000
Installment Purchase Agreements:					
Fire pumper	205,356	-	30,341	175,015	31,984
Compaq computers	4,382	-	4,382	-	-
Police equipment	19,229	-	19,229	-	-
District Court computers	7,233	-	7,233	-	-
Special Assessment Obligations:					
1999 Road Improvement Bonds	255,000	-	100,000	155,000	80,000
1999 B Road Improvement Bonds	350,000	-	75,000	275,000	75,000
Total accrued sick and vacation liability	1,029,385	-	260,537	768,848	350,000
Total governmental activities	\$ 1,970,585	\$ -	\$ 521,722	\$ 1,448,863	\$ 561,984

# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>					
General Obligation Bonds:					
1986 Wastewater Treatment Facility Bonds - Net of unamortized discount	\$ 2,900,000	\$ -	\$ 1,400,000	\$ 1,500,000	\$ 1,500,000
Combined Sewer Overflow State Revolving Fund Debt:					
1998A Sewage Disposal System Bonds	4,200,000	-	240,000	3,960,000	245,000
1998A-2 Sewage Disposal System Bonds	3,479,393	-	199,429	3,279,964	204,293
1999A Sewage Disposal System Bonds	6,535,000	-	365,000	6,170,000	375,000
1998 B Sewage Disposal System Bonds	1,500,000	-	75,000	1,425,000	75,000
1999 B Sewage Disposal System Bonds	840,000	-	40,000	800,000	50,000
2001 Ice Arena Building Authority Refunding Bonds - Net of unamortized deferred charges	3,366,668	16,667	225,000	3,158,335	270,000
2003 Parking Improvement Bonds	5,125,000	-	100,000	5,025,000	100,000
Revenue Obligations:					
1992 Sanitary Sewage Disposal System Bonds - Net of unamortized discount	247,339	666	50,000	198,005	50,000
1998B Water Supply System Revenue Bonds	700,000	-	25,000	675,000	25,000
Drinking Water State Revolving Fund Debt:					
1998A Water Supply System Revenue Bonds	680,000	-	40,000	640,000	40,000
1998A-2 Water Supply System Revenue Bonds	1,582,500	-	89,500	1,493,000	94,000
1999A Water Supply System Revenue Bonds	3,845,000	-	215,000	3,630,000	220,000
2000A Water Supply System Revenue Bonds	1,640,000	-	85,000	1,555,000	85,000
2000A-2 Water Supply System Revenue Bonds	1,825,000	-	85,000	1,740,000	90,000
Long-term portion of accrued sick and vacation liability	233,958	-	37,162	196,796	-
Total business-type activities	<u>\$ 38,699,858</u>	<u>\$ 17,333</u>	<u>\$ 3,271,091</u>	<u>\$ 35,446,100</u>	<u>\$ 3,423,293</u>

Annual debt service requirements to maturity (excluding amortization of discounts and deferred charges) for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 211,984	\$ 31,225	\$ 243,209	\$ 3,423,293	\$ 1,075,534	\$ 4,498,827
2008	233,471	20,656	254,127	2,003,157	987,444	2,990,601
2009	160,027	10,980	171,007	2,123,022	924,009	3,047,031
2010	36,656	3,440	40,096	2,132,886	857,877	2,990,763
2011-2015	37,877	1,735	39,612	11,852,890	3,226,305	15,079,195
2016-2020	-	-	-	11,852,716	1,329,728	13,182,444
2021-2024	-	-	-	2,030,000	163,925	2,193,925
Total	<u>\$ 680,015</u>	<u>\$ 68,036</u>	<u>\$ 748,051</u>	<u>\$ 35,417,964</u>	<u>\$ 8,564,822</u>	<u>\$ 43,982,786</u>

# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note 7 - Long-term Debt (Continued)

**Advance Refundings** - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2006, \$3,250,000 of bonds outstanding are considered defeased.

### Note 8 - Restricted Assets

In accordance with revenue bond provisions, assets of the Sewage Disposal Fund and Water Supply System Fund have been restricted for the funding of required reserves. The following is a summary of restricted assets at June 30, 2006:

	Sewage Disposal Fund	Water Supply System Fund
Revenue bond requirements:		
Operation and maintenance	\$ 648,255	\$ 133,668
Bond reserve	75,500	840,806
Debt service:		
Principal	37,500	263,000
Interest	3,194	66,438
Total requirements	764,449	1,303,912
Shortfall at June 30, 2006	(557,344)	(1,187,483)
Restricted assets - June 30, 2006	207,105	116,429
Current liabilities payable from restricted assets	(40,694)	(116,429)
Net assets restricted for revenue bond ordinances	\$ 166,411	\$ -

At June 30, 2006, the City was not in compliance with the provisions of the Sanitary Sewage Disposal System Revenue Bond and Water Supply Revenue Bond covenants that require cash and cash equivalents to be accumulated in a restricted account. The City has adjusted water and sewer rates for fiscal year 2007 in order to accumulate cash reserves to correct this deficiency.

Restricted assets in the Auto Parking Fund at June 30, 2006 consist of unspent bond proceeds.

### **Note 9 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health and general liability claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 10 - Defined Benefit Pension Plan**

**Plan Description** - The City of Mount Clemens Employees' Retirement System is the administrator of a single-employer defined benefit pension plan that covers substantially all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2005, the date of the most recent actuarial valuation, membership consisted of 185 retirees and beneficiaries currently receiving benefits, 19 terminated employees entitled to benefits but not yet receiving them, and 106 current active employees. The plan does not issue a separate financial report.

**Funding Policy** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution of 6.55 percent from fire employees, 1 percent from dispatchers, court employees, and nonbargaining clerical employees, and 5.3 percent from other general employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.



# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note 10 - Defined Benefit Pension Plan (Continued)

**Annual Pension Costs** - For the year ended June 30, 2006, the City's annual pension cost of \$862,090 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2004 using the entry age actuarial funding method. Significant actuarial assumptions used include: (a) a 7.5 investment rate of return and (b) projected salary increases of 5 percent to 28.6 percent per year. Both (a) and (b) include an inflation component of 5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis for general employees and on a closed basis for police and fire employees. The remaining amortization period is 12 years for general employees and 17 years for police and fire employees.

**Reserves** - As of June 30, 2006, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 20,392,340
Reserve for retired benefit payments	34,949,924

### Three-year Trend Information

	Fiscal Year June 30		
	2006	2005	2004
Annual pension costs (APC)	\$ 862,090	\$ 1,295,985	\$ 943,334
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

### Note 11 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 161 retirees are eligible. The City includes pre-Medicare retirees in its insured health care plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$1,557,000.

# City of Mount Clemens, Michigan

## Notes to Financial Statements June 30, 2006

### Note 11 - Postemployment Benefits (Continued)

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### Note 12 - Designated Fund Balance

Fund balance in the General Fund at June 30, 2006 has been designated for the following purposes:

Postemployment benefits	\$ 650,000
Sick and vacation liabilities	<u>650,000</u>
Total	<u>\$ 1,300,000</u>

### Note 13 - Joint Venture

The City is a member of the Grosse Pointes-Clinton Refuse Disposal Authority (the "Authority") joint venture, which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Park, Grosse Pointe Farms, Grosse Pointe, Grosse Pointe Woods, Harper Woods, the Village of Grosse Pointe Shores, and the Township of Clinton. The City Commission appoints one member to the Authority's governing board, which then approves its annual budget. The Authority currently contracts with a commercial refuse disposal company and bills members for their proportionate share of the costs.

The City's interest in the net assets of the Authority totaled \$211,803 at June 30, 2006 and is reported as part of the governmental activities in the statement of net assets. The City is unaware of any circumstances, including potential environmental remediation, that would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from their administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

# **City of Mount Clemens, Michigan**

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## **Notes to Financial Statements June 30, 2006**

### **Note 14 - Subsequent Events**

Effective July 1, 2006, the City of Mount Clemens District Court No. 41B consolidated its operations and accounting activity with the Charter Township of Clinton Court No. 41B to form a separate legal entity. This entity is a joint venture with the City of Mount Clemens and the Charter Townships of Clinton and Harrison. In conjunction with the formation of this entity, the City intends to transfer all assets held in the District Court Building Special Revenue Fund over to the combined court entity, along with approximately \$728,000 of construction in progress recorded in the capital assets of the City's governmental activities as of June 30, 2006. In August 2006, with approval by the participating communities, the combined court issued bonds totaling \$13.5 million to fund the construction of a new court facility.

Also subsequent to June 30, 2006, the City Commission approved a project plan for water system improvements totaling approximately \$3.5 million and resolved to make application to the State of Michigan for a Drinking Water State Revolving Fund loan program to fund the cost of the plan.

## **Required Supplemental Information**

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# City of Mount Clemens, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues</b>				
Current taxes	\$ 5,489,200	\$ 5,487,550	\$ 5,489,382	\$ 1,832
Payment in lieu of taxes	40,000	40,000	37,173	(2,827)
Penalties and interest on delinquent taxes	40,000	40,000	33,499	(6,501)
Business licenses and permits	21,000	21,000	32,532	11,532
Nonbusiness licenses and permits	357,000	277,500	289,722	12,222
State-shared taxes	2,110,800	2,100,800	2,140,431	39,631
Grants	25,000	14,900	24,423	9,523
Charges, services, and fees	352,000	391,835	395,794	3,959
Charges for services rendered	400,000	350,000	350,000	-
Charges for services and sales	19,500	19,000	11,188	(7,812)
Use and admission fees	10,000	20,000	26,092	6,092
Fines, forfeitures, and probation screening fees - 41st District Court	1,890,000	1,955,000	1,922,813	(32,187)
Interest earnings	12,000	42,000	50,818	8,818
Rents and royalties	18,000	20,500	24,518	4,018
Cable TV	145,000	172,200	174,899	2,699
Reimbursements:				
Fringe benefits	170,000	225,000	241,358	16,358
Police protection	70,000	-	-	-
Refunds	180,000	282,000	281,731	(269)
Judges' salary standardization	91,448	91,448	91,898	450
Miscellaneous	176,400	217,550	198,050	(19,500)
Federal grant revenue	196,036	337,036	381,483	44,447
<b>Total revenues</b>	<b>11,813,384</b>	<b>12,105,319</b>	<b>12,197,804</b>	<b>92,485</b>

# City of Mount Clemens, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures</b>				
General government:				
City Commission	\$ 6,900	\$ 6,900	\$ 6,900	\$ -
41st District Court	1,152,162	1,075,075	1,053,442	21,633
City administrator	224,770	182,900	177,433	5,467
Elections	57,600	47,100	36,485	10,615
Legal services	225,000	190,000	190,900	(900)
Auditing services	52,000	46,000	43,825	2,175
Personnel	121,900	120,213	112,172	8,041
Community promotions	25,000	21,100	15,762	5,338
Telephone	57,000	57,000	55,382	1,618
Retirement system				
Assessor	129,160	128,050	126,958	1,092
Controller	77,935	78,435	78,275	160
Accounting	82,200	82,835	83,177	(342)
Treasurer	115,060	163,721	164,201	(480)
City clerk	137,485	120,710	105,211	15,499
Purchasing	165,150	158,150	143,845	14,305
Planning services	228,793	237,990	220,015	17,975
Maintenance of municipal buildings	165,836	172,331	156,242	16,089
Data processing	85,000	103,000	99,966	3,034
Cable television	100,000	100,000	100,000	-
Property tax refunds	1,000	14,000	14,551	(551)
Total general government	3,209,951	3,105,510	2,984,742	120,768
Public safety:				
Police	2,225,155	2,191,188	2,110,612	80,576
Dispatch center	272,945	272,945	272,945	-
Fire	1,525,640	1,349,396	1,389,205	(39,809)
Volunteer firemen	52,650	55,265	48,985	6,280
Inspection	340,115	396,925	366,689	30,236
Dog warden	-	23,350	20,983	2,367
Total public safety	4,416,505	4,289,069	4,209,419	79,650
Public works:				
Engineering	30,400	30,400	24,557	5,843
Supervision and overhead	74,515	72,696	65,886	6,810
Alleys	16,724	16,724	12,543	4,181
Street lighting	265,000	275,000	272,731	2,269
Sewage services	2,500	2,500	2,066	434
Community Development Block Grant	135,000	138,775	240,530	(101,755)
Miscellaneous	103,006	136,526	129,953	6,573
Total public works	627,145	672,621	748,266	(75,645)

# City of Mount Clemens, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures (Continued)</b>				
Recreation:				
Parks and stadium	\$ 209,107	\$ 211,279	\$ 216,045	\$ (4,766)
Programs	33,900	33,600	28,554	5,046
Art center	2,500	13,100	12,614	486
Total recreation	245,507	257,979	257,213	766
Other functions:				
Insurance and pension	2,398,811	2,735,370	2,733,430	1,940
Land acquisitions and building improvements	50,000	172,150	177,219	(5,069)
Total other functions	2,448,811	2,907,520	2,910,649	(3,129)
Total expenditures	10,947,919	11,232,699	11,110,289	122,410
<b>Excess of Revenue Over Expenditures</b>	865,465	872,620	1,087,515	214,895
<b>Fund Balance - Beginning of year</b>	688,007	688,007	688,007	-
<b>Fund Balance - End of year</b>	<u>\$ 1,553,472</u>	<u>\$ 1,560,627</u>	<u>\$ 1,775,522</u>	<u>\$ 214,895</u>

# City of Mount Clemens, Michigan

## Required Supplemental Information Retirement System Schedules of Funding Progress and Employer Contributions June 30, 2006

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/00	\$ 53,868,318	\$ 48,505,140	\$ (5,363,178)	111.1	\$ 7,364,395	(72.8)
06/30/01	55,197,296	50,112,203	(5,085,093)	110.1	7,378,819	(68.9)
06/30/02	54,600,760	52,194,132	(2,406,628)	104.6	7,655,789	(31.4)
06/30/03	52,848,178	53,369,616	521,438	99.0	7,387,300	7.1
06/30/04	51,459,139	56,402,873	4,943,734	91.2	7,365,146	67.1
06/30/05	52,189,133	55,946,174	3,757,041	93.3	5,245,808	71.6

The schedule of employer contributions is as follows:

Years Ended June 30	Contribution Rates as a Percentage of Valuation Payroll		Annual Required Contribution	
	General Employees	Police and Fire Employees **	Based on Actual Payroll	Percentage Contributed
2001	\$ -	\$ 14.03	\$ 454,216	100
2002	-	14.27	479,340	100
2003	1.77	16.27	631,831	100
2004	6.38	19.30	943,334	100
2005	10.89	25.26	1,295,985	100
2006	11.77	34.24	862,090	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation date, follows:

Actuarial cost method	Individual entry age normal cost
Amortization method	Level percent of payroll, open and closed periods
Remaining amortization period	General employees: Amendments - 19 years closed All others - 12 years open Police and fire employees - 17 years closed
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	5.0%-28.6%
*Includes inflation at	5%
Cost of living adjustments	None

\*\* Effective for the year ended June 30, 2006, the contribution obligation for both police and firefighter members was expressed as a percentage of firefighter payroll.



## **Other Supplemental Information**

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# City of Mount Clemens, Michigan

	Special Revenue Funds						
	Major Streets and Trunklines	Local Streets	Dial-A-Ride	Drug Law Enforcement	Public Improvement	District Court Building	Total Special Revenue
<b>Assets</b>							
Cash and cash equivalents	\$ 966,520	\$ 204,950	\$ 477,803	\$ -	\$ 46,082	\$ 878,784	\$ 2,574,139
Receivables:							
Taxes	-	-	13,503	-	-	-	13,503
Special assessments	-	-	-	-	-	-	-
Other governmental units	156,107	44,625	6,731	-	-	-	207,463
Accrued interest and other	3,230	2,584	6,460	-	2,224	-	14,498
Prepaid expenses	260	260	7,489	-	-	-	8,009
Due from other funds	50,000	60,000	-	-	-	-	110,000
<b>Total assets</b>	<b>\$ 1,176,117</b>	<b>\$ 312,419</b>	<b>\$ 511,986</b>	<b>\$ -</b>	<b>\$ 48,306</b>	<b>\$ 878,784</b>	<b>\$ 2,927,612</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable	\$ 61,521	\$ 67,788	\$ 11,524	\$ -	\$ 3,296	\$ -	\$ 144,129
Accrued and other liabilities	811	812	3,771	-	-	-	5,394
Deferred revenue	30,550	13,093	-	-	-	-	43,643
Due to other governmental units	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>92,882</b>	<b>81,693</b>	<b>15,295</b>	<b>-</b>	<b>3,296</b>	<b>-</b>	<b>193,166</b>
<b>Fund Balances</b>							
Reserved:							
Debt service	-	-	-	-	-	-	-
Prepaid expenses	260	260	7,489	-	-	-	8,009
Unreserved	1,082,975	230,466	489,202	-	45,010	878,784	2,726,437
<b>Total fund balances</b>	<b>1,083,235</b>	<b>230,726</b>	<b>496,691</b>	<b>-</b>	<b>45,010</b>	<b>878,784</b>	<b>2,734,446</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,176,117</b>	<b>\$ 312,419</b>	<b>\$ 511,986</b>	<b>\$ -</b>	<b>\$ 48,306</b>	<b>\$ 878,784</b>	<b>\$ 2,927,612</b>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006**

Debt Service Funds			
General Obligation Bonds	Nonvoted Debt Service Fund	Total Debt Service	Total Nonmajor Governmental Funds
\$ 89,072	\$ 606,536	\$ 695,608	\$ 3,269,747
37,283	-	37,283	50,786
-	89,667	89,667	89,667
-	-	-	207,463
-	-	-	14,498
-	-	-	8,009
-	-	-	110,000
<u>\$ 126,355</u>	<u>\$ 696,203</u>	<u>\$ 822,558</u>	<u>\$ 3,750,170</u>
\$ -	\$ -	\$ -	\$ 144,129
-	-	-	5,394
-	89,667	89,667	133,310
<u>1,141</u>	<u>-</u>	<u>1,141</u>	<u>1,141</u>
1,141	89,667	90,808	283,974
125,214	606,536	731,750	731,750
-	-	-	8,009
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,726,437</u>
125,214	606,536	731,750	3,466,196
<u>\$ 126,355</u>	<u>\$ 696,203</u>	<u>\$ 822,558</u>	<u>\$ 3,750,170</u>

# City of Mount Clemens, Michigan

## Special Revenue Funds

	Major Streets and Trunklines	Local Streets	Dial-A-Ride	Drug Law Enforcement	Public Improvement	District Court Building	Total Special Revenue
<b>Revenue</b>							
Property taxes	\$ -	\$ -	\$ 366,902	\$ -	\$ -	\$ -	\$ 366,902
State-shared - Grants and other	776,782	257,701	-	-	-	-	1,034,483
Local intergovernmental revenue	-	-	53,575	-	-	-	53,575
Special assessments	-	-	-	-	29,690	-	29,690
Charges for services	-	-	60,513	-	-	-	60,513
Interest	29,701	10,167	23,602	-	861	14,120	78,451
Fines, forfeitures, and fees	-	-	-	-	-	340,725	340,725
Miscellaneous revenue	9,906	2,706	3,539	-	-	-	16,151
Total revenue	816,389	270,574	508,131	-	30,551	354,845	1,980,490
<b>Expenditures</b>							
Public safety	-	-	-	21,897	-	-	21,897
Public works	633,674	502,729	518,053	-	41,264	728,338	2,424,058
Debt service:							
Principal retirement	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-
Total expenditures	633,674	502,729	518,053	21,897	41,264	728,338	2,445,955
<b>Excess of Revenue Over (Under)</b>							
<b>Expenditures</b>	182,715	(232,155)	(9,922)	(21,897)	(10,713)	(373,493)	(465,465)
<b>Other Financing Sources (Uses)</b>							
Transfers in	50,000	160,000	-	-	-	-	210,000
Transfers out	(108,555)	(22,070)	-	-	-	-	(130,625)
Total other financing sources (uses)	(58,555)	137,930	-	-	-	-	79,375
<b>Net Change in Fund Balances</b>	124,160	(94,225)	(9,922)	(21,897)	(10,713)	(373,493)	(386,090)
<b>Fund Balances - Beginning of year</b>	959,075	324,951	506,613	21,897	55,723	1,252,277	3,120,536
<b>Fund Balances - End of year</b>	<b>\$ 1,083,235</b>	<b>\$ 230,726</b>	<b>\$ 496,691</b>	<b>\$ -</b>	<b>\$ 45,010</b>	<b>\$ 878,784</b>	<b>\$ 2,734,446</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2006**

Debt Service Funds			
General Obligation Bonds	Nonvoted Debt Service Fund	Total Debt Service	Total Nonmajor Governmental Funds
\$ 1,221,001	\$ -	\$ 1,221,001	\$ 1,587,903
-	-	-	1,034,483
-	-	-	53,575
-	61,880	61,880	91,570
-	-	-	60,513
1,914	17,683	19,597	98,048
-	-	-	340,725
-	-	-	16,151
1,222,915	79,563	1,302,478	3,282,968
-	-	-	21,897
-	-	-	2,424,058
-	200,000	200,000	200,000
23	30,300	30,323	30,323
23	230,300	230,323	2,676,278
1,222,892	(150,737)	1,072,155	606,690
-	30,625	30,625	240,625
(1,320,000)	-	(1,320,000)	(1,450,625)
(1,320,000)	30,625	(1,289,375)	(1,210,000)
(97,108)	(120,112)	(217,220)	(603,310)
222,322	726,648	948,970	4,069,506
<b>\$ 125,214</b>	<b>\$ 606,536</b>	<b>\$ 731,750</b>	<b>\$ 3,466,196</b>

# City of Mount Clemens, Michigan

## Other Supplemental Information Combining Balance Sheet Fiduciary Funds - Agency Funds June 30, 2006

	Tax Collections	Fire Insurance Escrow	District Court	Total
<b>Assets - Cash and cash equivalents</b>	<b><u>\$ 2,186</u></b>	<b><u>\$ 87,494</u></b>	<b><u>\$ 668,147</u></b>	<b><u>\$ 757,827</u></b>
<b>Liabilities</b>				
Due to other governmental units	\$ 2,186	\$ -	\$ 522,423	\$ 524,609
Cash bonds and deposits	<u>-</u>	<u>87,494</u>	<u>145,724</u>	<u>233,218</u>
Total liabilities	<b><u>\$ 2,186</u></b>	<b><u>\$ 87,494</u></b>	<b><u>\$ 668,147</u></b>	<b><u>\$ 757,827</u></b>



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August 22, 2006

To the Honorable Mayor and  
City Commissioners  
City of Mount Clemens  
One Crocker Boulevard  
Mount Clemens, MI 48043

Dear Mayor and Commissioners:

We have completed our audit of the financial statements of the City of Mount Clemens (the "City") for the year ended June 30, 2006. In addition to our audit report, we offer the following comments and recommendations for your consideration:

### **Overview of the City's Financial Condition**

During the year ended June 30, 2006, General Fund revenues exceeded expenditures by approximately \$1,088,000. As a result, fund balance at June 30, 2006 increased to approximately \$1,776,000, of which \$1,300,000 was designated for specific purposes, including employee compensated absences and currently unfunded postemployment benefit obligations.

The City continues to be faced with budgetary challenges, as do many communities throughout the region. During the 2005-2006 fiscal year, the City experienced only modest growth in property tax revenue and further reduction of state revenue sharing. To the positive, public safety expenditures were significantly reduced as a result of the City's agreement with Macomb County to provide law enforcement and emergency dispatch services. Additionally, most departments were near or below budgeted expenditures. Despite these successes, many challenges directly resulting from the difficult economic period that has been experienced in the state of Michigan remain, including the potential for further reductions in state revenue sharing payments. Other challenges, such as the limited ability to experience growth in property tax revenue, and future capital equipment and infrastructure needs are a characteristic of the City and its physical framework. We encourage the City Commission and administration to continue to closely monitor the budget in order to continue to accumulate fund balance reserves.

We also recommend that the five-year General Fund financial forecasting model be updated to allow the City to better predict the effects of revenue changes and what impact those changes have on the City's ability to provide services. It is important that the City maintain an adequate level of working capital and fund balance to adjust to financial changes without affecting the level of services provided to citizens or the City's ability to fund future obligations.

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## **Financial Condition of Enterprise Funds**

**Revenue Bond Covenants** - The City is subject to bond covenants for the revenue bond issues in the Water Supply and Sewage Disposal Funds. Specifically, the City is legally required to maintain and restrict adequate cash reserves for operation and maintenance of the systems, debt service payments, and additional bond reserves. At June 30, 2006, the City's cash balances in the Water Supply and Sewage Disposal Funds are approximately \$1,745,000 below the reserve requirements, meaning that the City is in violation of its debt covenants again this year. We recommend that the City continue to evaluate water and sewer usage rates in order to ensure that all debt service requirements and the bond reserve requirements are met in the future and that the funds have adequate cash to meet operating and future capital improvement needs.

**Fund Deficits** - As disclosed in the notes to the financial statements, both the Water Supply and Ice Arena Enterprise Funds had a deficit of unrestricted net assets at June 30, 2006. As a result, the City is required to document and submit a plan to eliminate the deficits with the State of Michigan.

**Interfund Balances** - Cumulative through June 30, 2006, the Sewage Disposal Fund has advanced approximately \$716,000 to the Water Supply Fund, but there is currently no plan in place to repay the Sewer Fund. We recommend the City evaluate the ability of the Water Fund to repay the amounts owed and establish a repayment plan.

## **Internal Control and Fraud Prevention**

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of our audit of the City's 2006 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99 (SAS 99), *Consideration of Fraud in a Financial Statement Audit*. As part of the City's process of continuous improvement, we noted the following internal control matter that we would like to bring to your attention for consideration:

- Independent review and approval are an important internal control over the purchase and disbursement process within a city. It is our understanding that the City Commission typically reviews and approves disbursements greater than \$1,500, but there are exceptions made to this procedure. We further understand that the City Commission does not review the entire list of invoices paid. In order to enhance the overall internal control over the disbursement process and to be in compliance with state statutes, we recommend the City adopt a policy that specifically addresses items or services that can be paid in advance of commission approval and outlines the process for commission approval subsequent to payment being made.



### **Credit Card Policy**

Public Act 266 of 1995 requires that municipalities that provide credit cards for purchases adopt a policy governing their use. This policy should describe the control activities intended to monitor credit card purchases and designate which individuals are responsible for these activities. We continue to recommend that the City adopt such a policy without delay in order to be in compliance with state law.

### **State Revenue Sharing**

As you are aware, the continuing budgetary challenges faced by the State impact the City through its revenue-sharing payments, which comprised approximately 18 percent of the General Fund's 2006 total revenue. While the drastic declines in this funding source experienced in recent years appear to have slowed, it is clear that the total amount of money distributed is unlikely to increase without significant changes to the State's revenue structure. At this time, revenue-sharing payments for fiscal year 2007 are anticipated to be approximately equal to 2006 levels.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, there appears to be no long-term solution to the State's structural deficit in its General Fund. As long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

It is also important to recognize that the legislative authority for the statutory portion of revenue sharing runs out on September 30, 2007. This portion represents approximately \$970,000 of the City's \$2,115,000 distribution in 2006. We have not heard any significant discussion in Lansing regarding the plans for renewal at that time, but it would be appropriate to begin discussions with your state representative regarding the importance of the revenue-sharing program and to continually monitor the impact of changes to projected revenue-sharing payments on the General Fund budget. In addition to the periodic updates that we provide to the City, updated information can be obtained from the Department of Treasury's website at <http://treas-secure.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697.

### **Funding of Postemployment Benefit Obligations**

As you are aware, the City provides postemployment benefits to retirees that are funded currently from the General Fund. For the year ended June 30, 2006, the cost of these benefits amounted to approximately \$1,557,000. The City has experienced significant increases to post-employment health care costs over the past several years, and this annual cost is expected to continue to grow as the average age of the City's workforce and the number of former employees eligible for postemployment benefits increases.

To the Honorable Mayor and  
City Commissioners  
City of Mount Clemens

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August 22, 2006

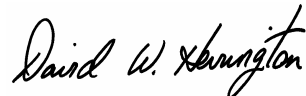
The Governmental Accounting Standards Board released Statement Number 45 (GASB No. 45), *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, the City will need to continue to budget only the expected cash payments, whether directly for health insurance premiums or for contributions to a pre-funding plan.

While GASB No. 45 does not require the City to pre-fund retiree health care benefits, it requires an actuarial valuation to be performed to measure the obligation, similar to what is done for the Employees' Retirement System. The statement is not effective until the City's 2008-2009 fiscal year; however, we understand that the City has begun evaluating the pre-funding postemployment benefit obligations on an actuarial basis. Actuarial funding generally provides the best mechanism for funding obligations over long time periods and multiple budget cycles. We would be happy to further assist the City in this endeavor.

We would like to thank the mayor and City Commission for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

**Plante & Moran, PLLC**



David W. Herrington



Lisa C. Manetta